

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 FEA-01 ERDA-07 AID-05 CEA-01

CIAE-00 CIEP-02 COME-00 DODE-00 FPC-01 H-02 INR-07

INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 SAM-01 OES-05

SP-02 SS-15 STR-04 TRSE-00 FRB-01 PA-02 USIA-15

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 5722

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E.O. 11652: N/A

TAGS: ENRG CA

SUBJECT: ENERGY; RELAXATION OF OIL PRICE GUIDELINES

1. ENERGY MINISTER MACDONALD ISSUED THE FOLLOWING OIL PRICE GUIDELINES ON FEBRUARY 21, EFFECTIVE IMMEDIATELY:

A. I AM APPRECIATIVE OF THE INDUSTRY'S POSITIVE RESPONSE TO THE FEDERAL GOVERNMENT'S SUCCESSIVE REQUESTS FOR PRICE RESTRAINT.

B. SINCE SEPTEMBER 1973 WHEN THE VOLUNTARY PRICE RESTRAINT WAS INSTITUTED, THE INDUSTRY'S PRICE BEHAVIOR HAS GENERALLY JUSTIFIED THE APPLICATION OF FLEXIBILITY INHERENT IN THE GOVERNMENT'S PRICE GUIDELINES. THE CANADAIN CONSUMER BENEFITED GREATLY FROM THIS PROGRAM DURING A PERIOD OF FUNDAMENTAL CHANGES IN MARKET CONDITIONS.

C. COMPANIES MAY NOW REFLECT IN THEIR PROUDCT SELLING PRICES CHANGES IN NON-CRUDE COSTS EXPERIENCED SINCE SEPTEMBER 1973 TO THE
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EXTENT THAT THESE CHANGES HAVE NOT ALREADY

BEEN OFFSET BY REVENUE AND/OR PRODUCTIVITY
IMPROVEMENTS, AS WELL AS BY THE PRICE INCREASES
AUTHORIZED LAST MAY 15.

D. ADJUSTMENTS ARE TO BE MADE IN GENERAL
RELATION TO WHERE COST INCREASES HAVE BEEN
EXPERIENCED AND NOT IN RELATION TO THE RELATIVE
STRENGTHS OF COMPETITION. FOR EXAMPLE, PRODUCTS
SOLD EX-REGINERY SHOULD REFLECT INCREASES IN
REFINING COSTS ONLY. SALES THAT HAVE BEEN
AFFECTED AS WELL AS BY AN INCREASE IN MARKETING
COSTS SHOULD BEAR COMMENSURATE ADJUSTMENTS.

E. AT THE SAME TIME THAT ANY COST-INCREASE
PRICE-ADJUSTMENTS ARE MADE UNDER THESE GUIDELINES,
COMPANIES MAY MAKE ANY CHANGES IN SELLING
PRICES NEEDED TO REMOVE ANOMALIES IN INTER-
PRODUCT PRICE, PRICE ZONE AND/OR TRADE CLASS
RELATIONSHIPS WHICH ARE INEVITABLE UNDER A
PRICE RESTRAINT PROGRAM.

F. OFFICIALS IN MY DEPARTMENT WILL CONTINUE TO
MONITOR PRODUCT SELLING PRICES ACROSS CANADA.
COMPANIES HAVE TO BE PREPARED TO EXPLAIN ANY
UNUSUAL CHANGES MADE UNDER D. AND E. ABOVE.
SHOULD ABUSE OCCUR THERE WILL BE A RETURN TO
ADMINISTERED PRICING.

2. WHILE ANNOUNCEMENT APPARENTLY CAUGHT MOST OIL
COMPANIES OFF-GUARD, GENERAL INDICATIONS ARE THAT
MOTOR GASOLINE PRICES CAN BE EXPECTED TO INCREASE
BY TWO TO THREE CENTS PER IMPERIAL GALLON.
PORTER

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